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Briefing note on macroeconomic projections for the Spanish economy (2019-2021)

This note outlines the key features of the macroeconomic projections for the Spanish economy for the period 2018-21, which the Banco de España has published today on its website (available at this [link](#)). These projections incorporate the new information that has become available since the previous projections were published in [December](#).

The projections anticipate the **prolongation of the cyclical upturn**. Growth will continue to be based on the competitiveness improvements achieved since the start of the crisis, the accommodative stance of monetary policy, the strengthening of the financial situation of businesses, households and financial institutions and, in the short run, the effects of the expansionary fiscal measures approved since mid-2018. However, **a slowdown in output** is projected over the projection horizon, as a result of a combination of factors: the gradual decline in the positive effects of the past monetary policy measures on the economy's financing conditions, some moderation in the growth rate of household consumption, leading to a rise in the household savings ratio and, in the medium term, assumed convergence towards a neutral fiscal policy stance.

Having grown by 2.5% in 2018, **gross domestic product (GDP) is projected to grow at a rate of 2.2% this year, 1.9% in 2020 and 1.7% in 2021, in keeping with the forecasts of three months ago**. The absence of revisions to the [December](#) projections is explained, in the short term, by the fact that the recent somewhat more buoyant behaviour of activity and a deterioration in the external environment cancel each other out. Over the rest of the projection horizon, the less favourable assessment of foreign markets, than in the preceding forecasting exercises, tends to be offset by a downward revision to oil prices and by the expectations that interest rates will remain very low for a longer period.

National demand will continue to sustain output growth, although its positive contribution to GDP growth will tend to moderate over the projection horizon. In contrast, the **current negative contribution of external demand to GDP growth is expected to decline over the projection horizon**.

Having been notably buoyant over the last few years, **employment growth is projected to slow**. Job creation will reduce the unemployment rate to 12% by the end of 2021.

As for prices, the gradual widening of the output gap and the projected increase in wage costs will involve greater inflationary pressures. **Core inflation**, as measured by the rate of change in the Harmonised Index of Consumer Prices (HICP), excluding food and energy, **will gradually rise from mid-2019**, partially reversing the moderation seen in the first few months of the year, to reach average rates of 1.1% in 2019, 1.5% in 2020 and 1.7% in 2021. After rising to 1.7% in 2018, the average annual rate of the overall index will stand at **1.2% in 2019, 1.5% in 2020 and 1.6% in 2021**, the upward trend in the core component being accompanied by some stability in energy prices, following their decline during 2019 to date. **The downward revision to inflation projections for 2019, of 0.4 percentage points**, primarily reflects the fact that recent price developments have been less buoyant than anticipated in December, suggesting that the pass-through to prices of recent wage increases is proving to be more contained than in the past. The revisions to inflation in the medium term are more modest (0.1 pp in both 2020 and 2021).

The **risks surrounding the central GDP growth scenario** are on the downside. The external risks include, notably, greater persistence than incorporated in the projections of the weakness of the external environment (and, in particular, of the euro area), the absence of clarity regarding the terms of the United Kingdom's departure from the European Union and the uncertainty over the possible adoption of fresh protectionist measures at global level. Domestically, a high degree of uncertainty persists regarding the future orientation of economic policy and, in particular, the resumption of fiscal consolidation, which is necessary to reduce the economy's vulnerability. For this same purpose, it would be helpful if economic agents were to take into account the specific circumstances of each sector or firm when setting prices and wages, in order to maintain the competitiveness improvements that lie behind the recovery. Meanwhile, household consumption, which continues to be the main factor underpinning growth over the projection horizon, may moderate by more than expected in the event of a more pronounced rebalancing of the savings ratio or a larger moderation of consumer credit than in the scenario considered by these projections.